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applications of labor bring in decreasing returns, that the assumption of other land is no longer necessary. It will readily be understood that additional units of labor on the land D will produce less than 1.8 bushels per unit. If an additional unit produce, for example, 1.6, and there be a demand for the products in excess of what can be produced in the whole territory, according to our supposition, then additional labor will be applied not only to D but also to the other tracts. The product under the most disadvantageous conditions will be 1.6 bushels whether the labor be applied to D or any of the other tracts. Therefore, according to the Ricardian theory all units producing more than 1.6, those on D, as well as in the other tracts, will yield a rent.

Practical experience in classroom work has demonstrated to the writer the effectiveness of the foregoing variant from current presentations of the subject. He hopes that it may prove of some value to his fellow instructors.

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#### RELATION OF CITIES AND TOWNS TO STREET RAILWAY COMPANIES.

The recent report of the special committee appointed by the Governor of Massachusetts to investigate the relations between cities and towns and street railway companies\* deserves the careful consideration of every one interested in the problems that have accompanied the growth of cities. The care with which the investigation was conducted and the great ability with which the conclusions of the committee have been formulated, give to the report an exceptional position in the series of investigations covering this class of questions during recent years. The report of the committee is comparatively short, covering but thirty-nine pages. In addition, however, the volume contains the draft of a street railway act which embodies the recommendations of the committee. Furthermore, in a series of appendices the following special topics are discussed:

First.—A presentation of the general subject of franchise-granting in this country and in Europe, by the secretary, Walter S. Allen, Esq.

Second.—Abstracts of the statutes of the various states relating to franchises and methods of taxation of street railways.

Third.—A detailed discussion of the relation between street railway companies and the public authorities in the larger cities of the United States.

Fourth.—A similar discussion of conditions in European cities.

Fifth.—A statement as to municipal ownership and operation of street railways in England, by Robert P. Porter, Esq.

Sixth.—An extract from the Rapid Transit and Tax Commissions' reports in relation to the readjustment of the corporation tax.

\* House Document No. 457.

And finally various tables presenting data on questions of taxation, length of street railway lines, etc.

The first effect of the report will be to dissipate many illusions and misconceptions as to the conditions of street railway traffic in this country and abroad. The report of the commission, together with the material presented in the appendices, is striking proof of the fact that the conditions of urban communication in this country and abroad are so different, that direct comparison is sure to be misleading. The comparatively restricted area of most European cities and the fact of concentration of great masses of population within this small area, tend to make the transit problem far simpler than in the United States. Furthermore, the conditions of social and business life in the former; the fact that there is no such sharp dividing line between business and resident sections as is the case in our American cities, serves to lessen the demand for rapid communication.

The report of Mr. Porter on "Municipal Ownership of Street Railways in England" emphasizes the fact, known to every one who has traveled abroad, that the process of improvement in transit facilities has been immeasurably slower than in the United States. The contrast, emphasized by the commission, is one between regulated and unregulated development. Few would be inclined to disagree with the conclusion that this fact of unregulated development, this lack of control over private corporations performing quasi-public service, has served to stimulate corporate initiative and enterprise. The great street railway corporations having received their franchises in perpetuity or for indefinite periods, without the necessity of making any considerable return to the city for the privileges so granted, have shown a willingness to experiment, to adopt new and improved methods of transportation, to replace the old type of cars by new models, which would have been considerably lessened had they been hampered by short-term franchises, or had they have been in fear of vexatious and burdensome control by the public authority. At all events, the astounding changes, one might almost say revolution, that has been effected in urban communication within recent years is largely traceable to the readiness to experiment and to sacrifice large sums of money in such experimentation. American corporations stand in marked contrast in this respect with the conservatism of European companies; with their reluctance to make any changes in established methods of transportation. It is said, for instance, that the Metropolitan Traction Company, of New York City, expended vast sums in experimenting with systems of underground electric transit. Having found a satisfactory system, no hesitancy was shown to substitute it for the existing method. After the change had been

effected one of the vice-presidents of the road remarked that within ten years this system would be replaced by some new form of electric or other motor power. With the desire to have the best of everything, ten years represents the usual period of usefulness of improved systems of transportation. In a word, our American communities have derived enormous benefits from this readiness of street railway corporations to experiment and to make improvements.

The policy of our city government, as well as the demand of our population, has been for the most improved methods of transportation, and we have given little thought, and, in fact, have had little interest in the question of the returns for franchise privileges. So long as the company will offer rapid communication the population is satisfied; and it is extremely difficult, if not impossible, to arouse any strong public feeling on the question of the return for such privileges. The citizens of American communities are so intent upon their personal occupations that their sensitiveness does not extend beyond matters affecting their personal welfare and industrial efficiency. If the system of urban transportation meets these requirements the population is perfectly willing to overlook the question of the adequacy or inadequacy of the return which the company is making for these privileges. We have here an attitude of mind essentially different from that of European communities. The first question which arises in the granting of a franchise privilege in a foreign city is the return to the public treasury which the grantee of the franchise is willing to make. In American communities, on the contrary, this question is regarded as of secondary importance, whereas the primary question is the nature of the service, and not its cost. Provided urban transportation is rapid, we are willing to pay comparatively high rates, and even to suffer great inconvenience, such as that of overcrowding.

In the formulation of these conclusions, the commission is so much impressed with the advantages that have accrued to American communities from the very fact of unregulated development that they are extremely reluctant to increase the power of the public authority over private corporations. It is to be remembered, in reading this report, that the conclusions of the commission are intended to apply to Massachusetts conditions alone and the principles formulated should be interpreted in this light, otherwise there is danger of serious misconception. The explanation of the conservative attitude of the commission toward changes in the existing system, is to be found in the fact that of all the states of the Union, Massachusetts is the only one that has established anything like adequate financial control over its public service corporations. The system of state boards, such as the Gas and Electric Light Commissioners, the Board of Railroad Commissioners, etc., have been given such wide powers of control

over corporations that it is almost, if not quite, impossible for them to defraud the city through questionable financial operations. Where corporate financiering is under as strict control as in Massachusetts it is always possible to determine with considerable accuracy the value of a franchise and to adjust taxation accordingly. At first glance it would seem that the Massachusetts system of franchise grants for indefinite periods but with reserved power of control on the part of the local legislative bodies must be unsatisfactory. It would undoubtedly be so in any state except Massachusetts. Where, however, the profits from the exercise of the franchise can be determined without difficulty and where unreserved power of revocation stands as a constant menace to the corporation, it becomes comparatively easy to demand a fair return for the franchise privileges. The system of public control over the financial operations of the corporations prevents over-capitalization, with all its attendant evils.

As an illustration of the results of such public control the report classifies seventy-seven street railway companies in operation in the commonwealth of Massachusetts. The Boston Elevated or West End Street Railway is left out of consideration, because it occupies an exceptional position. Of the seventy-six remaining active companies "thirty-four paid no dividends in 1897, while forty-two paid dividends of from 1.25 to 10.5 per cent, averaging 4.29 per cent."\* Nor do these dividends represent a return on excessive capitalization. The capitalization per mile in stock and bonds of street railways in Massachusetts is \$46,600, which is less than the average (\$49,500) in the New England States. It is but twenty-six (26) per cent of the per mile capitalization of New York (\$177,800); but thirty-six (36) per cent of the per mile capitalization of Pennsylvania (\$128,200), and little less than forty-one (41) per cent of the average capitalization throughout the United States (\$94,100). "It is less than that in Great Britain (\$47,000), where both construction and appliances are far less costly and elaborate and over-capitalization has been guarded against with the utmost care."

It will be seen, therefore, from the foregoing description that the

\* The following table shows the percentage of net earnings of the street railway companies of Massachusetts, inclusive of the West End Company, for the five years since 1893:

	<i>Capital Investment.</i>	<i>Net Earnings.</i>	<i>Percentage of Earnings to Investment.</i>
1893 . . . . .	\$24,343,010	\$1,256,647	5.16
1894 . . . . .	26,341,333	1,400,912	5.32
1895 . . . . .	29,147,714	1,983,248	6.80
1896 . . . . .	33,878,948	2,273,552	6.71
1897 . . . . .	37,230,924	2,405,904	6.46
Average for five years . . . . .			6.16

extreme optimism of the commission in its comments on American street railway development must be interpreted with reference to the peculiar conditions in Massachusetts. The reading of the report conveys the impression that the inhabitants of Massachusetts are enjoying the benefits of improved transportation largely because of the fact that the railway companies have been given free hand to do as they choose. As a matter of fact there is no state in the Union which has subjected its public service corporations to such far-reaching control. With these facts in mind it is not surprising that the commission should decide against recommending short-term franchise grants or even fixed terms. The present system has given to the communities most of the advantages which regulation can give and has at the same time fostered in the street railway companies the spirit of initiative and the desire for improvement; two principles which it is extremely difficult to find combined in one system. It remains true nevertheless that for the great majority of the American cities the fixed term franchise, with possibility of renewal, furnishes the entering wedge for more careful control over private corporations. At the present time the all-important question is to establish some form of control in view of existing conditions. It seems more likely that a form of control of this kind will be established, however desirable the Massachusetts system may be. Ultimately we shall probably have a combination of the two, that is, state boards of control combined with fixed-term franchises.

Although the commission bases its conclusions upon Massachusetts experience, it has been led into the formulation of one or two general principles which are open to very serious question. On page 22 of the report we find the following:

"If municipalities or corporations choose, from over-eagerness or for other reasons, to enter into ill-advised or improvident agreements, which they afterwards repent, that is their affair; and the officials entering into such agreements are responsible to their constituencies, whether the body of citizens or the holders of the company's stock. It certainly is not the part of the commonwealth either to prescribe the terms of grants, or, after they are made, to examine those terms with a view to seeing that they contain nothing of which the parties to them may thereafter repent."

The principle here formulated ignores the peculiarities of American franchise grants. Were it possible for one legislature to undo the wrong done or injury inflicted by its predecessors, were the responsibility of officials to their constituents an effective remedy for such wrong, the view of the commission would be justified. As a matter of fact, however, the protection extended to private property rights, the constitutional restrictions prohibiting a state from impairing the obligation of contracts or to deprive any person of life, liberty or

property without due process of law, constitute such restrictions upon legislative discretion as to make the remedies suggested by the commission utterly inadequate. Furthermore, the statement that the commonwealth has no interest either in prescribing the terms or examining the nature of franchise grants is open to very serious question. In a case of this kind, where the action of one generation may barter away property rights which are the inalienable heritage of subsequent generations, the control of the state is to be justified upon the basis of sound political policy. The experience of European countries and the tendency toward central administrative control in our own, are sufficient evidence of the movement of popular opinion in this direction.

While the commission is opposed to fixed-term franchises, the provisions of the proposed street railway act show a strong desire on the part of the commission to assure to cities and towns an adequate return for the franchises granted. Thus Section 7 of the act provides that, in addition to the taxes now levied, every company whose annual gross receipts per mile of track operated are \$7000 or less shall pay 2 per centum of the annual gross receipts into the city treasury. In case of companies whose annual gross receipts per mile of track operated are more than \$7000, or less than \$14,000,  $2\frac{1}{4}$  per centum; gross receipts from \$14,000 to \$21,000,  $2\frac{1}{2}$  per centum; from \$21,000 to \$28,000,  $2\frac{3}{4}$  per centum; \$28,000 or more, 3 per cent. This provision, in connection with the recommendation that the municipality should own the street railway lines, that is to say, the tracks, and lease the lines to private companies, would constitute most effective safeguards to public interests.

On the question of municipalization of street railways the commission takes a negative attitude. It clearly points out that this particular phase of municipal service is still in its experimental stage, and that where the experiment has been tried its success has not been sufficiently conclusive to warrant a more general adoption. As regards American cities, the conclusions of the commission will meet with little or no opposition.

Taken as a whole, this report is the most valuable contribution to the literature of the subject which has appeared within recent years. When interpreted in the light of the particular conditions upon which its conclusions rest, and for which the recommendations are intended, there is little with which one would be tempted to disagree. The greatest danger will come from the application of recommendations justified by Massachusetts conditions to the essentially different conditions of other American communities.